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1. The attached memorandum from the Director of Finance, with its two attachments, was forwarded to us for our comments. It is addressed to the Executive Director/Comptroller, and recommends that he establish a task force (presumably reporting to him) with a charter to study all of the Agency's proprietary projects. It contains no recommendations concerning the specific objectives of the study, the use to be made of the findings, or the official to whom primary responsibility should be assigned. Tab A discusses alleged deficiencies in proprietary projects, and Tab B is a proposed Headquarters Notice which would require inclusion of certain provisions in the Administrative Plans of all proprietary projects. After carefully reviewing the document we have concluded that we cannot concur in its substance or conclusions. Our reasons are set forth below.

2. Our major difficulty with the document is its lack of specificity and the fact that it is subject to considerable interpretation. Paragraph 3 of the covering memorandum states that Tab A "specifically identifies current deficiencies in financial control over the proprietary projects which should be reviewed". In fact, however, Tab A doesn't specifically identify anything. It is a five-page generalized discussion of several valid principles of management, but it does not identify any specific violation of those principles. Unfortunately, the title of the memorandum--"Deficiencies in Agency Financial Controls"--and its general tone would convey to

SECRET

the Executive Director/Comptroller the impression that startling deficiencies are now prevalent throughout the entire range of proprietary projects. The fact that the charges are generalized might at first escape an Agency executive who does not deal in this area on a day to day basis. However, when his review of the charges was completed, I am afraid that the findings would reflect that the deficiencies existed only in those few projects which are now being identified in Audit Reports and that in those instances it was more a matter of performance of individuals than a weakness in the Plan or Control System. If the charges were true, they would be an indictment not only of the Clandestine Services, but of the entire management structure of the Agency. Foremost, they would be an indictment of the Office of Finance, the Audit Staff, and the Inspector General for having allowed such deficiencies to exist over the years without having brought them to the attention of the proper authorities. If the report is released outside the Support Services, we feel that the Support Services, and particularly the Office of Finance, will bear the brunt of the criticism.

3. The memorandum's second difficulty is its lack of objectivity. It infers that normal corrective action will not suffice and that improvement can be expected only by raising the problem to the level of the Office of the Director and creating a review task force which is not subordinate to the operational command. The average Agency executive would read that into the memorandum because (a) it is addressed directly to the Executive Director/Comptroller, and (b) there is no evidence that coordination with other interested components

SECRET


was sought or intended. Had the proposal been intended only as an offer of assistance, or a suggestion for action in the normal course of business, it would have been addressed to the DD/P or the DD/S, whichever had operational control of the proprietary concerned. In addressing the memorandum directly to the Executive Director and bypassing coordination, there is the clear implication that the normal procedures are not adequate for the occasion. We would strongly urge that the memorandum not be released without prior knowledge of the affected components, including the Inspector General and the Audit Staff, since all of these offices have responsibilities overlapping those the Office of Finance proposes to establish in the new task force.

4. Aside from our objections noted above, we do not believe that a task force is necessary to achieve the objectives generally outlined in the memorandum. The concept of proprietary management is set forth in Headquarters Regulation _____. The administration of each individual facility is governed by an Administrative Plan tailored to specific situations. Unless a proprietary project has an approved Plan, funds may not be advanced except with the personal approval of the DD/S. The Office of Finance is a key participant in the development of each Administrative Plan, and we are not aware of an Administrative Plan ever being approved without the prior endorsement of the Office of Finance. Nor are we aware of any instance where the Office of Finance has ever been rebuffed in its efforts to insert any reasonable requirement into a Plan. If the Office of

Finance is aware of a deficiency in any Plan, it should be brought to our attention so that corrective action can be taken.

5. Tab B is a proposed draft of a Headquarters Notice which would require the insertion of ten specific points in all Administrative Plans. Such authority is not required because the regulations as they now exist would authorize the inclusion of these or any other provisions which may be necessary. Further, while there may be some variation in the language used, the principles enunciated in these ten points are now and always have been inherent in the management of all proprietaries. Paragraph 2j is inappropriate. The only other possible exception might be paragraph 2d, which would require that "No funds

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in full accord with paragraph 2c which would require that all such accounts be immediately reported to the Office of Finance. This has been a standard practice from the beginning. As previously stated, if the Office of Finance determines that additional controls are necessary and required in a particular Proprietary Administrative Plan, they have the ability to include those provisions during the development and coordination stages. This then is a matter which can be resolved within the Office of Finance, and we see no point in referring it to

the Executive Director.

6. Present Agency procedures also provide an effective system of identifying deviations from acceptable procedures and for effecting improvements when necessary. The Office of Finance has always been a full partner in the establishment of these checks and balances. A large number of Finance Officers are assigned to the DD/P components, both overseas and at headquarters. These employees are in close contact with the DD/P operational personnel and are fully cognizant of all administrative aspects of the proprietary projects. Project accountings are thus subject to review and approval by Finance representatives detailed to the operating components themselves. The accountings are then forwarded to Certifying Officers designated by the Director of Finance, where they receive a second examination by fiscal experts located outside the command echelon. A third level of financial review is accomplished during a planned cycle of audits by the Audit Staff. Exceptions noted by either the Certifying Officer or the Audit Staff are usually resolved through direct liaison with the operating component concerned, but this office is responsible for the resolution of any difference which cannot be resolved through the liaison channels. Any significant deviation is brought to the personal attention of the DD/P. Within this review framework, this office is in almost daily contact with the Audit Staff in the resolution of questions raised in all types of audits covering the entire Clandestine Services. In contrast to that close relationship, however, we do not recall ever having been asked by the Office of Finance to assist in the resolution of any of the deficiencies which

the attached memorandum alleges to be prevalent throughout the entire system.

7. We believe that the establishment of the task force would also duplicate other review functions already established. The three levels of financial review described above are augmented by other units at different levels of authority. The DD/P maintains his own project evaluation unit in the CA Staff. The Executive Director has a review function located in the Budget Office. The Inspector General has a planned cycle of inspections of all components and activities and undertakes special studies as required. The Executive Committee for Air Operations has specific functional responsibilities in conjunction with all air proprietary projects. Most of the larger projects are in the category subject to review by the Special Group. The DD/P command structure (including DDP/PG) reviews all projects in conjunction with the annual budget exercise and project renewal. Larger projects are audited annually by outside CPA firms. We seriously doubt that the addition of one more review committee would add anything of value to the management of proprietary projects. For example, we doubt that the task force would be able to provide the DDS with any sound advice on how to manage [REDACTED]. We believe that the contributions which can be made by the Office of Finance can best be accomplished through the mechanism of the Administration Plans, i.e., development and implementation phases. In fact, the panels which review and approve Administration Plans are probably composed of substantially the same people who would comprise the proposed task

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force. To elevate this function to the Director's Office would only diffuse authority.

8. In summary, this office believes that; (a) the memorandum from the Office of Finance is misleading and too highly generalized, and (b) the Office of Finance already has adequate means to bring discrepancies to the attention of the operating officials who must take the corrective action. This office has been heavily involved in correcting deficiencies identified by the Audit Staff, and we are equally available to the Office of Finance. Lest the discussion get completely out of focus, however, we believe that we should emphasize the most fundamental factor in the entire problem. The DD/P conducts a continuing review of all projects and has a greater interest than anyone else in improving efficiency and eliminating marginal activities, particularly under the current competitive budgetary situation. Financial reviews are only one adjunct of a comprehensive evaluation system, and one cannot arbitrarily substitute the judgement of a Finance Officer for that of the operations officer who is responsible for the overall performance of the project. In the final analysis the reforms, if any, are going to be achieved by the operations officer and the command echelon with the advice, assistance, and perhaps the gentle prodding of the Support Services. Such reforms can never be achieved by circumventing command authority, or by challenging operational positions with accounting theory. The deficiencies which exist, and Audit Reports are revealing some, can best be eliminated through a close cooperation between Support personnel and operations officers, and by a superior performance on the part of Support personnel

SECRET

when they are in a position to make a contribution. Proposals which would inject support philosophies as an edict can only result in a closing of ranks against these philosophies. This was the situation we experienced when the Projects Administrative Plans Staff was dictating the form and substance of Administrative Plans, and was insisting that the Plans include provisions which all concerned recognized could not be accomplished. For these reasons we believe that we should make greater use of the existing, accepted methods rather than attempt to create a new instrument completely outside the present approval and control system.

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